

**Consolidated Rural Water District No. 9, McIntosh County
Checotah, Oklahoma**

Financial Statements and
Reports of Independent Auditor

For The Year Ended December 31, 2022

Audited by

**BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP**

BROKEN ARROW, OK

**Consolidated Rural Water District No. 9, McIntosh County
Checotah, Oklahoma**

Board of Directors and Employees
December 31, 2022

Chairman

Rex Hastey

Co-Chairman

Greg Berry

Secretary/Treasurer

Michael David Newton

Members

Ernie Moore

Operations Manager

Marcus Burkhalter

Office Manager

Carin Dill

**Consolidated Rural Water District No. 9, McCurtain County
Checotah, Oklahoma**

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December 31, 2022

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BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Consolidated Rural Water District No. 9, McIntosh County
Checotah, Oklahoma

Report on the Audit of the Financial Statements

We have audited the accompanying combined fund type and account group financial statements-regulatory basis of the Consolidated Rural Water District No. 9, McIntosh County, Checotah, Oklahoma (the District), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2022, and the respective changes in cash basis financial position and its cash flows for the year then ended, in accordance with the cash basis of accounting described in Note 1.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1, and for determining that the cash basis of accounting is an acceptable basis for presentation of the financial statements in the circumstances. Management is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

The District has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

The prior year "memorandum only" comparative information and the supplemental information on page 16 are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

February 26, 2023



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Consolidated Rural Water District No. 9, McIntosh County
Checotah, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the Consolidated Rural Water District No. 9 (the District), McIntosh County, Checotah, Oklahoma, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 26, 2023. Our report on the financial statements disclosed that, as described in Note 1 to the financial statements, the District prepares its financial statements on a cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting in order to determine our auditing procedures that are appropriate for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of audit results as item 2022-1, which is considered a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

February 26, 2023

**Consolidated Rural Water District No. 9, McIntosh County
Checotah, Oklahoma**

Disposition of Prior Year's Significant Deficiencies
December 31, 2022

2021-1 Internal Control – Segregation of Duties

Finding – Presently the same individual performs all accounting functions; receives utility service related payments and is responsible for service billing and adjustment, also makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial reports. This is considered a lack of segregation of duties.

Recommendation – While it may not be cost effective to hire additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the District should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with the lack of segregation of duties.

Disposition – This continues to be a finding.

McIntosh County Rural Water District No. 9
Checotah, Oklahoma
Schedule of Audit Results
December 31, 2022

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed a significant deficiency in the internal controls, item 22-1, which was considered a material weakness.
3. The audit disclosed no instances of noncompliance which were material to the financial statements.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

22-1 Internal Control – Segregation of Duties

Criteria – The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the District’s assets and ensure accurate financial reporting.

Condition - Presently the same individual performs all accounting functions; receives utility service-related payments and is responsible for service billing and adjustments, also makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial reports.

Cause – The District’s limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect – Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation - While it may not be cost effective to hire additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the District should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with the lack of segregation of duties.

**CONSOLIDATED RURAL WATER DISTRICT NO. 9, McINTOSH COUNTY
CHECOTAH, OKLAHOMA
STATEMENT OF NET POSITION - CASH BASIS
DECEMBER 31, 2022**

	2022	-Memorandum- -Only- 2021
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 719,053	\$ 552,365
Investments	113,706	117,488
Total Current Assets	<u>832,759</u>	<u>669,853</u>
Capital Assets:		
Land	3,523	3,523
Water system	1,422,357	1,333,812
Equipment and vehicles	130,296	130,296
Office furniture and equipment	18,078	13,454
Total Capital Assets	<u>1,574,254</u>	<u>1,481,085</u>
Less: Accumulated depreciation	<u>(961,758)</u>	<u>(916,170)</u>
Total Capital Assets (net)	<u>612,496</u>	<u>564,915</u>
TOTAL ASSETS	<u>\$ 1,445,255</u>	<u>\$ 1,234,768</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Customer Deposits	\$ 6,300	\$ 6,059
Current portion of long-term debt	35,347	30,514
Total current liabilities	<u>41,647</u>	<u>36,573</u>
Noncurrent Liabilities:		
Notes payable	<u>77,237</u>	<u>116,335</u>
Total Liabilities	<u>118,884</u>	<u>152,908</u>
<u>NET POSITION:</u>		
Net investment in capital assets	499,912	418,066
Unrestricted	826,459	663,794
Total net position	<u>1,326,371</u>	<u>1,081,860</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,445,255</u>	<u>\$ 1,234,768</u>

The accompanying notes are an integral part of the financial statements

**CONSOLIDATED RURAL WATER DISTRICT NO. 9, McINTOSH COUNTY
CHECOTAH, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2022**

	2022	-Memorandum- -Only- 2021
Revenue from Operations:		
Water sales	\$ 505,107	\$ 466,841
Refunds/Reimbursements	2,568	2,768
Benefit units	5,250	3,750
Total revenue from operations	<u>512,925</u>	<u>473,359</u>
Expenses from Operations:		
Water purchases	182,561	173,067
Wages and consulting services	87,805	99,047
Insurance	9,946	10,079
Depreciation	45,588	45,482
Office expenses	13,868	11,328
System maintenance and repairs	6,407	12,555
Supplies and materials	23,232	20,246
Water testing	5,280	5,870
Telephone/Internet	10,568	8,809
Professional fees	38,100	0
Dues & fees	2,340	6,153
Miscellaneous	904	113
Total expenses from water operations	<u>426,599</u>	<u>392,749</u>
Net Income (Loss) from Operations	86,326	80,610
Non-Operating Revenues (Expenses):		
Interest earnings	1,584	2,200
Sale of property	32,500	0
OWRB grant proceeds	128,170	0
Interest paid on debt	(4,069)	(8,575)
Total other income	<u>158,185</u>	<u>(6,375)</u>
Change in Net Position	244,511	74,235
Net Position, beginning of period	<u>1,081,860</u>	<u>1,007,625</u>
Net Position, end of period	<u><u>\$ 1,326,371</u></u>	<u><u>\$ 1,081,860</u></u>

The accompanying notes are an integral part of the financial statements

**CONSOLIDATED RURAL WATER DISTRICT NO. 9, McINTOSH COUNTY
CHECOTAH, OKLAHOMA
STATEMENT OF CASH FLOWS - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2022**

	2022	-Memorandum- -Only- 2021
Cash Flows from Operating Activities:		
Receipts from customers	\$ 509,566	\$ 474,409
Payments to employees	(74,134)	(67,811)
Payments to vendors	(303,277)	(279,456)
Net Cash Provided by Operating Activities	<u>132,155</u>	<u>127,142</u>
Cash Flows from Capital and Related Financing Activities:		
Grant/loan proceeds	131,952	177,364
Principal paid on debt	(34,265)	(203,928)
Interest paid on debt	(4,069)	(8,575)
Sale of capital asset	32,500	0
Capital assets (purchased) sold	(93,169)	(34,754)
Net cash provided by (used in) Capital and Related Financing Activities	<u>32,949</u>	<u>(69,893)</u>
Cash Flows from Investing Activities:		
Interest earnings - net investments	1,584	1,611
Net cash provided by (used in) Investing Activities	<u>1,584</u>	<u>1,611</u>
Net Increase (Decrease) in Cash and Equivalents	166,688	58,860
Cash and cash equivalents, beginning of period	552,365	493,505
Cash and cash equivalents, end of period	<u>\$ 719,053</u>	<u>\$ 552,365</u>
 Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income (loss)	\$ 86,326	\$ 80,610
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense	45,588	45,482
Increase (decrease) in customer deposits	241	1,050
Net Cash Provided by Operating Activities	<u>\$ 132,155</u>	<u>\$ 127,142</u>

The accompanying notes to the financial statements are an integral part of this statement

Consolidated Rural Water District No. 9, McIntosh County Checotah, Oklahoma

Notes to Financial Statements
For the Year Ended December 31, 2022

Note A – Significant Accounting Policies

Business Activity

McIntosh County Rural Water District No. 9 (the District) was formed under the provisions of Title 82, O.S. Sections 1324.1-1324.26 inclusive. The District operates as a nontaxable government agency to service residents of McIntosh County. The District's primary income is from the sale of water to its members in an area around Checotah, Oklahoma.

Basis of Accounting

The cash basis of accounting is followed for all accounts. Revenues are recorded when received and expenditures are recognized when paid. This is a comprehensive basis of accounting other than generally accepted accounting principles. The Government Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

Cash

The District's accounts are with Peoples National Bank, in an Operating Account. Gross revenues of the District are to be deposited into this account. The reasonable and necessary current expenses of operating and maintaining the District for each month are also paid from this account.

For the purpose of the statement of cash flows, cash and cash equivalents consists of cash on hand and all cash in the bank.

As of December 31, 2022 the District's deposits were \$743,368. Funds up to \$250,000 were covered by the Federal Depository Insurance Corporation (FDIC). Remaining funds were collateralized by District held securities.

Investments

The District had \$113,706 in outstanding investments at December 31, 2022.

**Consolidated Rural Water District No. 9, McIntosh County
Checotah, Oklahoma**

Notes to Financial Statements
For the Year Ended December 31, 2022

Note A – Significant Accounting Policies – cont’d

Memorandum Only

The “Memorandum Only” captions above the columns of prior year information mean that amounts are presented for comparative and information purposes only.

Capital Assets

Any items purchased or constructed in excess of \$1,000 and a useful life of over two years is considered a capital asset by the District and will be depreciated over a specific time. Capital assets are valued at cost, depreciation is computed by use of the straight-line method.

	12/31/2021 Amount	Additions	Deletions	12/31/2022 Amount
Land	\$ 3,523	-	-	3,523
Plant and water sys.	1,333,812	88,545	-	1,422,357
Equip and vehicles	130,296	-	-	130,296
Office furn & equip	13,454	4,624	-	18,078
Total Capital Assets	1,481,085	93,169	-	1,574,254
Less: Accumulated Depreciation	(916,170)	(45,588)	-	(961,758)
Total	<u>\$ 564,915</u>	<u>47,581</u>	<u>-</u>	<u>612,496</u>

Federal Income Tax

The District is exempt from all federal and state income taxes.

Note B – Long-term Debt

The District obtained a 3.1% interest loan with The People’s National Bank for \$177,364 in 2021. The outstanding balance of this loan at December 31, 2022 is \$112,584. The monthly payment is \$3,194.49, and should be paid off on January 6, 2026.

**Consolidated Rural Water District No. 9, McIntosh County
Checotah, Oklahoma**

Notes to Financial Statements
For the Year Ended December 31, 2022

Note C – Contingencies

During 2022, the District was approved to receive a \$695,000 loan from the Oklahoma Water Resources Board (OWRB) for the construction of a new chlorination station and water tank modifications. This loan (ORF-22-0015-DW) includes \$300,000 of disbursed funds that will be forgiven and requires no payback to the OWRB.

In 2022, the District received a total of \$128,170 of funds from the OWRB for this ongoing project. These funds were part of the principal forgiveness payment, so as of December 31, 2022, there is no outstanding debt owed by the District on these funds.

Note D – Insurance Coverage

The District appears to have had adequate insurance to cover all major perils at December 31, 2022.

Note E – Subsequent Events

Management has evaluated subsequent events through February 26, 2023 which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

CONSOLIDATED RURAL DISTRICT NO. 9, McINTOSH COUNTY
CHECOTAH, OKLAHOMA
Schedule of Water Rates and Customers
-Unaudited Information-
December 31, 2022

Water Rates

0 gallons	=	\$31.00 (flat rate)
0 > 5,000 gallons	=	\$0.775 increase per 100 gallons
5,000+ gallons	=	\$0.900 increase per 100 gallons

Customers

The District had 789 customers at the close of the fiscal year.

The new membership fee for the District is \$750.

A renter's deposit of \$100 is required and the transfer fee is \$50.